



State of Arizona
Department of Education

Tom Horne
Superintendent of
Public Instruction

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MEMORANDUM

To: School Health & Nutrition Program Sponsors

From: Mary Szafranski, Deputy Associate Superintendent
Arizona Department of Education, Health & Nutrition Unit

Nicholas Dunford, Financial Services Director
Arizona Department of Education, Health & Nutrition Unit

Date: February 20, 2009

RE: Economic Price Adjustments in Vendor Contracts

Original Signed

Today's unpredictable economy has made it important to consider accounting for the fluctuating costs of goods and services that are beyond the control of either the Local Education Agencies (LEA) or the vendor. As a result, LEAs need to consider not only the need for including an economic price adjustment clause (sometimes referred to as an escalator) in their contracts, but also to carefully enforce the terms of the clause and demand price reductions when appropriate.

A contract with an economic price adjustment is appropriate when:

- Contract performance will or may cover an extended period of time;
- There is serious doubt concerning the stability of market conditions during the period of the contract;
- Adjustment standards or indexes agreed to are based on contingencies outside the contractor's control; and
- Contingencies, such as increases in labor costs, that would otherwise be included in the contract price can be identified and covered separately in the contract.

The economic price adjustments, which allow an LEA to adjust costs in the contract, must be tied to an appropriate standard or cost index. Relating the price adjustments in a contract to an index allows the LEA to ensure that increases under the contract are not without basis. For example, if fuel prices are increasing drastically, then an appropriate index—such as the Consumer Price Index—will reflect this change.

As always, the terms of the economic price adjustment, including the appropriate standards or indexes to which it will be tied, must be expressly identified in the original solicitation and contract documents. Additionally, as under any circumstances, the contract must be awarded to the lowest-priced, responsible, and responsive bidder.

However, it is important to note that the LEA needs to decide whether they would like to include these in their contract; it is not the vendor's decision. Along the same lines, it is important to recognize that the LEA will most likely be advised by the contractor when costs go up, but they will not necessarily notify the LEA when costs go down. Keep in mind that the economic price adjustment clause is intended not only to give vendors an option to increase their price for the LEA but also for the LEA to demand price reductions when appropriate.

Please remember that LEAs need to be meticulous in contract management, particularly when the contract contains an economic price adjustment clause. If you have any questions or concerns regarding this memo, please contact the Health and Nutrition Contracts Management Officer, Ellen Pimental at (602) 542-6208 or Ellen.pimental@azed.gov.